

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

Wisconsin Energy Corporation, Integrys	)	
Group, Inc., Peoples Energy, LLC The	)	
Peoples Light and Coke Company, North	)	
Shore Gas Company, ATC Management Inc.,	)	
and American Transmission Company LLC	)	
	)	
Application pursuant to Section 7-204 of	)	Docket No. 14-0496
The Public Utilities Act for authority to	)	
engage in a Reorganization, to enter into an	)	
agreement with affiliated interests pursuant	)	
to Section 7-101, And for such other	)	
approvals as may be required under the	)	
Public Utilities Act to effectuate the	)	
Reorganization	)	

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**REBUTTAL TESTIMONY OF DAVID J. EFFRON  
ON BEHALF OF  
THE PEOPLE OF THE STATE OF ILLINOIS**

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**AG Exhibit 3.0**

**JANUARY 15, 2015**

ICC DOCKET NO. 14-0496  
REBUTTAL TESTIMONY OF DAVID J. EFFRON

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1    **I.        STATEMENT OF QUALIFICATIONS**

2    **Q.        Please state your name and business address.**

3    A.        My name is David J. Effron. My business address is 12 Pond Path, North Hampton,  
4              New Hampshire, 03862.

5  
6    **Q.        Have you previously submitted testimony in this docket?**

7    A.        Yes. I submitted direct testimony on November 20, 2014, marked as AG Exhibit  
8              1.0. My qualifications and experience are included with my direct testimony.

9

10   **II.        INTRODUCTION AND SUMMARY OF TESTIMONY**

11   **Q.        What is the purpose of your rebuttal testimony?**

12   A.        In this rebuttal testimony, I respond to the rebuttal testimony of Joint Applicants'  
13              witnesses Leverett and Schott.

14

15   **III.        EMPLOYEE COMPLEMENT**

16   **Q.        In his rebuttal testimony, Mr. Schott responds to a question that has as its**  
17              **premise that you have proposed that “the Commission here should direct**  
18              **Peoples Gas and North Shore to adopt a new tariff rider that credits customers**  
19              **with any net savings resulting from Gas Companies’ actual FTE levels being**  
20              **lower than the 2015 FTE forecasts.” JA Ex. 9.0, at 19:395-398. Is this an**  
21              **accurate representation of your direct testimony?**

22 A. No. What I stated in my direct testimony was that: “If the Gas Companies’ forecasted  
23 headcounts are accepted by the Commission in Docket Nos. 14-0224/0225 (cons.),  
24 then *the Commission should condition its approval of the Reorganization* in the  
25 present case on any savings due to the difference between the headcounts for the  
26 test year reflected in the revenue requirements presented by the Gas Companies in  
27 Docket Nos. 14-0224/0225 (cons.)<sup>1</sup> and the Joint Applicants’ employee headcount  
28 commitment in the present case being properly credited to customers by means of a  
29 rider that would commence at the closing of the Transaction and would continue until  
30 the rates in the Gas Companies’ next base rate case go into effect.” AG Ex. 1.0, at  
31 20:436-444 (emphasis added). Conditioning approval of the merger on the adoption  
32 of the described rider is not the same as ordering Peoples Gas and North Shore to  
33 adopt such a rider. Mr. Schott has mischaracterized my testimony. A similar  
34 description of my proposal regarding employee headcounts appears in one of the  
35 questions in Mr. Leverett’s rebuttal testimony (JA Ex. 6.0, at 25:657-661) and is also  
36 a mischaracterization of my direct testimony.

37  
38 **Q. Has either Mr. Schott or Mr. Leverett established that your proposed condition**  
39 **regarding employee headcounts is unreasonable or inappropriate?**

40 A. No. Neither witness even addresses the adoption of the rider regarding employee  
41 headcounts in the context of its being a condition for approval of the merger. Rather,  
42 both witnesses address my proposal as if I were recommending that the rider be

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<sup>1</sup> Docket Nos. 14-0224/0225 (cons.) are rate cases filed by North Shore Gas Company (“North Shore”) and The Peoples Gas Light and Coke Company (“Peoples Gas”). (North Shore and Peoples Gas are referred to collectively as “the Gas Companies.”)

unilaterally imposed on the Gas Companies. Their rebuttal testimony is simply irrelevant to my proposal.

Further, the Joint Applicants have represented that they are “prepared to provide immediate benefits to customers and the Illinois communities the Gas Companies serve by making commitments that it would accept as conditions on the Commission’s approval of the Reorganization.” JA Ex. 1.0, at 15:331-334. It is in this context that the commitment to maintain minimum employee headcounts in Illinois was offered. However, in his rebuttal testimony, Mr. Leverett, referring to the higher headcounts forecasted by the Gas Companies in Docket Nos. 14-0224/0225 (cons.), states that “it is the headcount levels forecasted for Peoples Gas and North Shore in those rate cases that represent the FTEs that will be needed to provide adequate, reliable, efficient, safe, and least-cost service in 2015 and 2016.” JA Ex. 6.0, at 26:681-864.

If the headcount levels forecasted for Peoples Gas and North Shore in Docket Nos. 14-0224/0225 (cons.) are “needed to provide adequate, reliable, efficient, safe, and least-cost service in 2015 and 2016,” then the Joint Applicants’ commitment in this case to maintain minimum employee headcounts in Illinois is of no value, as that commitment is based on employee headcounts below the employee levels Mr. Leverett now claims are necessary “to provide adequate, reliable, efficient, safe, and least-cost service in 2015 and 2016.” If the commitment to maintain designated employee headcounts is to have any value to customers and the Illinois communities the Gas Companies serve, then further conditions must attach to this commitment.

66

67 **Q. Do you have a response to the assertion that your proposal is inconsistent with**  
68 **proscriptions against “single issue and/or retroactive ratemaking”? JA Ex. 9.0,**  
69 **at 20:418-420.**

70 A. Yes. As a general matter, I believe that arguments of this nature are best left to the  
71 attorneys. That being said, this assertion appears to be premised on the mistaken  
72 assumption that I am proposing that the described rider be unilaterally imposed on  
73 the Gas Companies. The Joint Applicants’ assertion is irrelevant to what I actually  
74 am proposing, which is that the Commission should condition its approval of the  
75 Reorganization on the described employee headcount rider.

76 The Joint Applicants characterize their minimum employee headcount as  
77 providing an immediate benefit to customers. The issue of the appropriate test-year  
78 employee headcounts for North Shore and Peoples Gas was contested in Docket  
79 Nos. 14-0224/0225 (cons.). The Joint Applicants’ characterization of the minimum  
80 employee headcount commitment as a benefit to customers in the present case is  
81 inconsistent with the test-year employee headcounts presented by the Gas  
82 Companies in the rate cases as being necessary to provide safe and reliable service.  
83 My proposal is not single-issue ratemaking, but is rather an effort to give some  
84 substance to the Joint Applicants’ minimum employee headcount commitment. My  
85 proposal does not constitute single-issue ratemaking but is rather an effort to resolve  
86 this inconsistency and to do so in a way that would “provide immediate benefits to  
87 customers.”

88

89

90 **IV. INTEGRYS CUSTOMER EXPERIENCE PROJECT (“ICE”)**

91 **Q. In his rebuttal testimony, Mr. Schott claims that you propose that the**  
92 **Commission should require the Gas Companies to adopt a new tariff rider that**  
93 **credits customers with net savings, if any, resulting from the ICE project. JA**  
94 **Ex. 9.0, at 21:461-464. Does this accurately represent what you proposed in**  
95 **your direct testimony?**

96 A. No. What I stated in my direct testimony was that: “If the Commission includes the  
97 Gas Companies’ forecast of ICE costs in the revenue requirement in Docket Nos. 14-  
98 0224/0225 (cons.), then *the Commission should condition its approval of the*  
99 *Reorganization* in the present case on the reduction to costs resulting from the in-  
100 service of the ICE project (the cessation of the organizational readiness expenses  
101 and the ‘hard benefits’ in the form of other cost reductions) being properly credited  
102 to customers by means of a rider that would commence at the closing of the  
103 Transaction and would continue until the rates in the Gas Companies’ next base rate  
104 case go into effect.” AG Ex. 1.0, at 20:450-457 (emphasis added). Conditioning  
105 approval of the merger on the adoption of the described rider is not the same as  
106 ordering Peoples Gas and North Shore to implement such a rider. Mr. Schott has  
107 again mischaracterized my testimony.

108

109 **Q. Mr. Schott claims that by relying on information the Joint Applicants provided**  
110 **in JA Ex. 4.1 and in their data request responses related to the ICE project,**

111        **you are “trying to use older information to call into question updated**  
112        **information.” JA Ex. 9.0, at 22:476-480. Do you have a response?**

113        A.        Yes. The so-called “older information” that I relied on is the data contained in the  
114        response to JA AG 3.05 Attach 01 CONFIDENTIAL. When asked to identify the  
115        differences between the “older information” and the “updated information”, *the*  
116        *Joint Applicants described one, and only one, change to what Mr. Schott is now*  
117        *characterizing as “older information.”* Specifically, the Joint Applicants stated  
118        that: “Subsequent to the compilation of data underlying JA AG 3.05 Attach 01  
119        CONFIDENTIAL, the estimated ICE implementation date for the Gas Companies  
120        has moved from the second to the third quarter of 2015” Joint Applicants’ response  
121        to AG Data Request 3.06, which is attached as AG Ex. 1.7 to my direct testimony.

122                The delay in the estimated ICE implementation date by one quarter cannot  
123        possibly explain why the billing for the return on assets/depreciation on the ICE  
124        project would be moved *forward* from the beginning of 2016 to the beginning of  
125        2015, as was assumed by the Gas Companies in the rate cases. Nor can the change  
126        in the implementation date possibly explain the other significant discrepancies in  
127        the treatment of ICE costs and benefits in the Gas Companies’ rate cases, as  
128        described in my direct testimony.

129                Mr. Schott notes that the response to JA AG 3.05 Attach 01  
130        CONFIDENTIAL is based on data as of September 2012. However, if the only  
131        change to that information is that the estimated ICE implementation date for the  
132        Gas Companies has moved from the second to the third quarter of 2015, then JA



AG 3.05 Attach 01 CONFIDENTIAL is in no way irrelevant to determining the effect of the ICE project on the Gas Companies' prospective expenses.

**Q. Can you explain further why you have identified the treatment of ICE costs and savings as a condition for approval of the merger, in response to JA Ex. 9.0, at 24:521-530?**

A. Yes. As I stated in my direct testimony, the Gas Companies included ICE costs of approximately \$19.2 million in their test-year revenue requirements in Docket Nos. 14-0224/0225 (cons.). Based on information in the present case, the ICE project will produce "system savings greater than forecasted system costs" (Joint Applicants' response to AG 2.13, attached as AG Ex. 1.3 to my direct testimony). If the Commission includes the Gas Companies' forecast of ICE costs in the revenue requirement in Docket Nos. 14-0224/0225 (cons.), then customers will be paying \$19.2 million per year for ICE costs for as long as the rates established in those cases are in effect, without getting the benefit of any of the offsetting system savings. The Joint Applicants have stated that they are "prepared to provide immediate benefits to customers and the Illinois communities the Gas Companies serve by making commitments that it would accept as conditions on the Commission's approval of the Reorganization." JA Ex. 1.0, at 15:331-334. I believe that adoption of a mechanism that properly credits customers for the ICE savings is a reasonable condition for approval of the merger.

155 **Q. Do you have a response to Mr. Schott’s criticism that your proposal would**  
156 **“credit customers with net savings (if any) that occur in 2015, 2016, and any**  
157 **later period” but that “savings are not forecasted to occur until 2016”? JA Ex.**  
158 **9.0, at 24-25:531-534.**

159 A. Yes. Evidence in the present case shows the benefits of the ICE project, in the form  
160 of cost reductions, commence when the ICE project goes into service. That is, based  
161 on the data presented in the present case, the savings are not forecasted to occur until  
162 2016 because the ICE project does not go into service until 2016. The timing of the  
163 ICE savings coincides with the allocation of ICE costs to the Gas Companies,  
164 contrary to what the Gas Companies presented in Docket Nos. 14-0224/0225 (cons.)

165 Mr. Schott claims that my proposal “arbitrarily and selectively ignores any  
166 changes in other costs (or savings) after 2015, including but not limited to inflation”  
167 (*id.*, at 25:534-536). However, if the system savings are greater than forecasted  
168 system costs, then to the extent that system costs are affected by inflation or other  
169 factors, then the savings will be equally affected. There is no mismatch between the  
170 treatment of ICE costs and savings in my proposal.

171

172 **Q. Do you have a response to Mr. Schott’s rebuttal regarding inconsistency**  
173 **between your proposal and proscriptions against “single-issue and/or**  
174 **retroactive ratemaking”? JA Ex. 9.0, at 25:539-539.**

175 A. Yes. Again, as a general matter, I believe that arguments of this nature are best left  
176 to the attorneys. However, Mr. Schott’s rebuttal on this point also appears to be  
177 premised on the mistaken assumption that I am proposing that the described rider be

178 unilaterally imposed on the Gas Companies. The Joint Applicants' assertion is  
179 irrelevant to what I actually am proposing, which is that the Commission should  
180 condition its approval of the Reorganization on establishment of a mechanism to  
181 properly credit customers for ICE system savings.

182 Like the employee headcount, the issue of the appropriate level of ICE  
183 expenses to include in the Gas Companies' revenue requirements was a contested  
184 issue in Docket Nos. 14-0224/0225 (cons.). The Gas Companies claimed ICE costs  
185 of approximately \$19.2 million in their test-year revenue requirements in Docket Nos.  
186 14-0224/0225 (cons.). In the present case, the Joint Applicants disclosed information  
187 that the ICE project will produce system savings greater than forecasted system  
188 costs. This information has not been discredited or otherwise been shown to be  
189 irrelevant. In my opinion, the projection of ICE system savings greater than  
190 forecasted system costs is inconsistent with the inclusion of \$19.2 million of ICE  
191 system costs in the Gas Companies' revenue requirements. My proposal does not  
192 constitute single-issue ratemaking but is rather an effort to resolve this  
193 inconsistency and to do so in a way that would "provide immediate benefits to  
194 customers."

195

196 **Q. Does this conclude your rebuttal testimony?**

197 **A. Yes.**